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# DEVELOPMENTS IN THE ORGANIZATION AND PLANNING OF SOVIET INDUSTRY

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# DEVELOPMENTS IN THE ORGANIZATION AND PLANNING OF SOVIET INDUSTRY

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# DEVELOPMENTS IN THE ORGANIZATION AND PLANNING OF SOVIET INDUSTRY

## Summary and Conclusions

The organization of Soviet industry along territorial lines -- a radical departure in mid-1957 from the traditional branch-of-industry pattern of ministries -- remains basically unchanged after nearly 4 years of operation. Small changes introduced since 1957 suggest a regime restlessly seeking still more effective organizational forms but reasonably satisfied that the territorial system is a workable basic administrative arrangement as was the ministerial system before it. Each system has exhibited obvious shortcomings which have evoked continuing innovation and refinement, and each has presented some problems which have defied easy solution.

Either system, in practice, has owed part of its success to the incorporation within it of basic elements of the other. Under the ministerial system, the branch-of-industry principle was supplemented by territorial divisions both in the ministries and the gosplans. Under the system of territorial councils of national economy (sovnarkhozes), the gosplans have expanded their branch-of-industry divisions by assuming many of the functions and acquiring many of the personnel of the former ministries.

Either system, in practice, has owed part of its inadequacy to its inability to encompass simultaneously and with equal effectiveness both departmental and regional considerations. The departmental barriers of the ministerial system often led adjacent enterprises of different ministries on circuitous routes through official channels to Moscow to effect the simplest transactions and obscured the requirements for unified planning of national and regional economic development. The regional barriers of the sovnarkhoz system have led to local distortions of the national interest, and campaigns to curb these localist tendencies probably have inhibited the local initiative that the reorganization sought to promote.

The industrial reorganization of 1957 and subsequent changes in industrial planning and organization have contained elements of both centralization and decentralization. A considerable amount of administrative detail has been decentralized. Republic councils of ministers now administer enterprises accounting for 94 percent of total industrial production compared with only 47 percent in 1955, but their control over these enterprises is far from complete. Control over basic economic

decisions has been tightened at the all-union level, and many decisions regarding investment, production, and allocation of materials -- controls formerly exercised by the ministries -- were centralized in the Gosplan* during the first year under the new system. Some of these decisions, particularly those bearing on allocation of materials, were passed down to the republic gosplans and to the sovnarkhozes in 1958 and 1959, but decisions bearing on interrepublic supply and other major planning decisions were retained by the Gosplan. In an attempt to strengthen central planning, long-term planning was taken from the Gosplan in 1960 and placed in a relatively new agency at the national level, the State Scientific-Economic Council (Gosekonomsovet).

A similar move was made in 1960 to strengthen planning at the republic level by relieving the republic gosplans of the heavy administrative burden of handling intersovnarkhoz production relationships as well as problems of supply and sales in those republics containing a number of sovnarkhozes.** These administrative responsibilities were shifted to newly created republic-level sovnarkhozes that were superimposed over the existing regional sovnarkhoz structure in the first three of these republics, and the five regional sovnarkhozes in Uzbek SSR were replaced with a single sovnarkhoz.

In May 1961 a long-discussed scheme to further an old objective -- the integrated development of natural economic regions broader in area than the regional sovnarkhozes -- was put into operation with the division of the country into 17 large economic regions. Each region, except Kazakh SSR, was to have a council for coordinating and planning the work of the sovnarkhozes. These councils are to study basic problems of complex regional economic development and work out recommendations for presentation to the republic gosplans, the national Gosplan, and the Gosekonomsovet.

Most of these changes, both in organization and in planning, have involved lateral transfers of functions with little shifting of authority from one level to another. Those which have involved vertical transfers of functions have been directed toward either relieving central agencies of administrative details or supplying central agencies with a better basis for planning and control. If Soviet hopes are realized, the sovnarkhozes will have progressively less freedom to express undesirable localist tendencies, and opportunities to exercise local initiative along approved lines, which was one objective of the 1957 reorganization,

* Unless local organizations are specified, the terms Gosplan and Council of Ministers refer to organizations at the national (USSR) level.

** Earlier in 1960 the RSFSR contained 67 sovnarkhozes; the Ukrainian SSR, 14; Kazakh SSR, 9; and Uzbek SSR, 5.

will increase very little. In this sense, the changes since 1957 may be viewed as attempts to refine the operation of the new system rather than as a return to the old, and the system itself may be viewed simply as centralization along territorial lines compared with the previous centralization along branch-of-industry lines.

A long list of economic achievements of the last 4 years has been attributed by Soviet writers to the sovnarkhoz system, including gains in output, increases in profits, reductions in costs, better utilization of materials and equipment, reductions in the number of unfinished construction projects, better training and utilization of manpower, reductions in the average length of haul of rail freight, improved relationships between industry and agriculture, more efficient combinations of technically related enterprises, and reduction in the size of the managerial apparatus. For the most part, these claims have not been demonstrated conclusively to be products of the sovnarkhoz system, and some of the claims, themselves, have not been adequately substantiated.

In any event, Soviet writers also have admitted important areas where the sovnarkhoz system is in need of further improvement. Serious shortcomings have been cited in sovnarkhoz arrangements for introducing new technology, solving problems of industrial specialization and cooperation, meeting intersovnarkhoz delivery plans, and planning and coordinating the total economic requirements within the sovnarkhoz. The sovnarkhozes, lacking well-defined legal rights even after 4 years of operation, perhaps have operated too cautiously to realize their full potential in coping with these problems.

In addition to these admitted shortcomings, which are susceptible of treatment within the general framework of the existing organizational system, is the problem of improving economic efficiency at the enterprise level. The enterprise manager now operates in an environment substantially different from that preceding the 1957 reorganization, and he generally has described the new system as an improvement over the old. His opportunities, however, to select optimum levels and mixtures of output, the most economical combinations of inputs, schedules for introducing new production techniques, and rates of capital investment are little greater than under the old system. As long as higher echelons retain authority over these basic decisions, which are important determinants of economic efficiency, the response of the enterprise manager to recently instituted incentive measures must necessarily be limited, and the problem of improving the planning and control activities of higher echelons will remain a basic part of the leadership's efficiency drive.

Recommendations for improving central planning and control were presented in March 1961 to the Council of Ministers, as requested by

the plenum of the Communist Party of the USSR (CPSU) in July 1960. These recommendations were directed toward overcoming the defects of physical and value indicators now used in the planning and reporting of industrial activity, providing greater continuity in economic plans over longer periods, and improving the quality of regional planning. Some of the recommendations have been discussed for years, but none seems to promise a spectacular solution to the problems considered. Nevertheless, greater precision in industrial indicators might improve the communication between planner and manager that is essential for realistic planning, and greater use of regional planning balances might provide some of the integrated development of local resources originally sought in the reorganization. The attempt to obtain greater continuity in plans, whether it succeeds or not, will force planners to look ahead in greater detail and may lead to a more accurate anticipation of the requirements of future planning periods.

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## I. Establishment of the Territorial System of Economic Organization and Planning (1957)

Since the adoption of the sovnarkhoz system on 1 July 1957, 1/* changes in the organization and planning of industry and construction have been fairly numerous, but these changes have not challenged the basic decision embodied in Khrushchev's reorganization theses of 30 March 1957. 2/ Khrushchev advocated abandoning the long-used branch-of-industry principle in favor of a territorial approach to the Soviet planners' need for breaking the economy into manageable units. Similarly, the changes have not resulted in an indisputably greater or lesser degree of centralization. The admonition of the CPSU plenum in February 1957 that the reorganization proposals be drawn up in "strict observance of the basic principle of centralized planning on an all-union scale" 3/ has been rather closely heeded, both in the original changes of 1957 and in subsequent actions.

The merging of long-term planning, current planning, and supply control functions which had been called for in the reorganization theses of March 1957 was accomplished before the sovnarkhoz system was placed in operation. The new, enlarged Gosplan took over its new functions on 22 May, and the 105 sovnarkhozes began operating on 1 July. The dates on which the ministries were dissolved are shown in the following tabulation 4/:

| Date | Ministry |
|---|---|
| 4 July 1957 | Machine-Tool Industry<br>Heavy Machine Building<br>Transport Machine Building<br>Tractor and Agricultural Machine Building<br>Food Industry<br>Construction Materials Industry<br>Meat and Dairy Industry<br>Fish Industry |
| 5 July 1957 | Electrotechnical Industry<br>Construction and Road-Machine Building<br>Coal Industry |
| 6 July 1957 | Nonferrous Metallurgy<br>Automobile Industry<br>Light Industry |
| 13 July 1957 | Paper and Wood Processing |
| 17 July 1957 | Machine Building |
| 26 July 1957 | Instrument Building and Means of Automation |
| 22 August 1957 | Petroleum Industry |
| 31 August 1957 | City and Rural Construction |
| 6 September 1957 | Ferrous Metallurgy<br>Construction of Coal Industry<br>Timber Industry |
| 9 September 1957 | Construction of Metallurgical and Chemical Industry Enterprises<br>Construction of Petroleum Industry Enterprises |
| 23 September 1957 | Construction |

* For serially numbered source references, see the Appendix.

Throughout the second half of 1957, additional features of the basic reorganization gradually were introduced, making still more apparent the intention of maintaining firm central authority over the activities of the new administrative units. Although a decree of 22 May granted to chairmen of sovnarkhozes the general authority enjoyed by ministers of the USSR, 5/ a decree of 27 July "On Further Expanding the Authority of the Gosbank of the USSR" provided even closer financial monitoring of industrial enterprises than Gosbank had exercised under the ministerial system, 6/ and a decree of 6 September detailed the strengthened role of the Central Statistical Administration. 7/ Sovnarkhoz authority in planning, capital construction, material-technical supply, finance, credit, labor, and wage matters was outlined in statutes of 26 September which clearly reserved to central authorities decisions with respect to major goals and policies. Principal delegations of authority involved matters of local implementation of policies established at the center. 8/ On 16 October, sovnarkhozes and republics were granted authority for independent decisions on construction projects of a relatively minor nature within rather narrow ruble limits, 9/ but a decree of 12 December reserved to the Council of Ministers the distribution of capital investments in ferrous and nonferrous metallurgy; coal, petroleum, gas, and chemical industries; defense branches of industry; and electric power stations. 10/ The defense-oriented ministries of aviation, shipbuilding, radiotechnical, and defense industries were retained at midyear to coordinate branch-of-industry development in these important areas even though some of their enterprises had been transferred to the sovnarkhozes, 11/ but on 15 December these ministries were replaced by state committees of the Council of Ministers. 12/ By the end of 1957, nearly all of the main features of the territorial system were in existence.

## II. Refining the System (1958-59)

Major attention in 1958 and 1959 was turned to the problem of making the system function more smoothly, principally through changes in planning and material-technical supply arrangements, although a few other changes in organizational structure not directly related to this objective also were introduced.

The state committee form of special treatment, given earlier to defense-oriented activities, was extended in June 1958 to the chemical industry 13/ and in November to the procurement of agricultural products. 14/ The Ministry of Trade, which since 1956 steadily had been losing functions to the Gosplan and to the republic ministries of trade, was abolished in November. 15/

In an attempt to improve both planning and material-technical supply in 1958, the supply bases which had been inherited by the Gosplan from

the abolished ministries were turned over to the republic gosplans in January, 16/ and in April the 20 supply and marketing administrations under the Gosplan were re-formed into 14 Main Administrations for Interrepublic Deliveries. 17/ The April decree also outlined a new system for planning material-technical supply beginning in 1959 in which the republics, sovnarkhozes, and enterprises were to work out detailed supply requirements for more than 10,000 commodities within the limits of preliminary supply patterns worked out by the Gosplan. 18/ On the one hand, this system gave republic organs greater responsibility for detailing the interrepublic delivery pattern implied by the state plan and presumably left the Gosplan more time to engage in other aspects of planning. On the other hand, it expanded considerably the list of commodities included in the central plan for material-technical supply. The system in 1958 encompassed only about 5,000 planned and 1,000 funded commodities. By 1960 the number of centrally planned commodities had grown to 12,800, and the 1961 plan includes more than 14,000. 19/ Another approach in April 1958 to the material-technical supply problem was directed toward reducing the temptation of regional officials to attend to local requirements at the neglect of intersovnarkhoz and interrepublic delivery plans. Nonfulfillment of such plans without valid reason henceforth could involve severe disciplinary penalties or the levy of monetary fines up to 3 months' pay. Repeated nonfulfillment would make the officials liable to prosecution on criminal charges. 20/

Two further measures in May 1958 were directed toward improving the planning of production and investment. The decision on production planning stipulated continuity of annual plans within the framework of long-term plans. It also formalized the system by which plans based on centrally determined control figures could be developed locally, and it instructed the Gosplan to report to the Council of Ministers on the possibility of curtailing the number of indexes specified both in the control figures and in the national plans. 21/ Considerable attention was devoted to the treatment of supply planning, with emphasis on the development of regular and direct ties between producer and consumer enterprises and the allowance of ample lead time in supply planning. The investment decision stipulated separation of productive and nonproductive investments in planning and provided a separate category of investment for the construction and construction materials industries. 22/ The principal delegation of authority was limited to the republics, which were to be responsible for detailing investments for a large proportion of housing, communal, and industrial construction which was to be allocated to them, in aggregate only, by the state economic plan. 23/ The detailing of investment, however, was to be in strict accordance with standards and norms established by the central authorities, and the Gosplan and the Gosstroy (State Committee of the USSR Council of Ministers for Construction Affairs) were charged with the close monitoring of the work of the republics. To supplement this

control, in an area which apparently proved to be of particular temptation, a decree of October 1958 specified the policies to be followed by subordinate authorities in the expenditure of money and materials for constructing administrative, sports, and other public buildings. 24/

New procedures for establishing prices, revealed in June 1958, delegated considerable authority to republics, sovnarkhozes, and enterprises to detail specific prices appropriate to their scope of operation and responsibility, but, as in the matter of planning, the basic questions of price policy were reserved to the central government. 25/ The Central Statistical Administration and the Gosplan were charged with monitoring price movements and assuring that price actions of subordinate authorities were within the limits of all-union price policy.

The heightened emphasis on technology as an element of industrial growth in the Seven Year Plan (1959-65) was backed up in February 1959 by the creation of a State Committee of the Council of Ministers for Automation and Machine Building. 26/ The state committees previously organized had been based on temporarily retained ministries, but in automation and machine building, where apparently such a transition had not been contemplated, none of the ministries existing at the time of the reorganization in mid-1957 had been retained. The scope of the technology effort was to become more apparent with the major CPSU plenums primarily devoted to this subject in June 1959 and July 1960.

Also in February 1959 a new State Scientific-Economic Council (Gosekonomsovet) was formed. 27/ Through 1959 the only observed functions of this council were related to the coordination of the work of various research organizations. It was not until April 1960 that this agency was assigned its present role as the central long-term planning agency.

In April 1959 the network of Soviet long-term investment banks was reorganized, apparently to provide more effective control over the investment activities that had been extended to republic authorities in 1958. The agricultural bank, the bank for financing communal and housing construction, and the communal bank were abolished, and their functions were taken over by the State Bank and the Industrial Bank. 28/ The Industrial Bank was renamed the All-Union Bank for Financing Capital Investment (Stroybank, USSR).

Except for the response to specific problems which led to the formation of the Automation Committee, the Gosekonomsovet, and the new Stroybank, the formal structure of administration of industry and construction remained basically stable in 1959. The year was marked, however, by considerable discussion of problems of planning techniques, material-technical supply, investment, industrial pricing,

and coordination of research. The CPSU plenum of June 1959 stressed the continuing existence of organizational and managerial, as well as technical, barriers to rapid improvement in the level of industrial technology. 29/ The plenum instructions for working out proposals for coping with problems such as improved interregional and intraregional specialization and cooperation and better organization of scientific research and design planning organizations seemed to invite changes in the existing structure. But if the proposals were ever submitted they were not reported, and no organizational changes came out of the June plenum in 1959.

Some further measures were taken, however, to improve the planning process, to tighten control over investment, and to increase the effectiveness of material-technical supply arrangements. A.N. Kosygin, Chief of the Gosplan, noted at the June plenum that enterprises still were getting their approved plans 3 or 4 months late, and he indicated, both at the plenum and at the unveiling of the 1960 plan at a session of the Supreme Soviet in October, that in the future the Gosplan would submit control figures by May of the current year for use by enterprises, sovnarkhozes, and republics in preparing their plans for the coming year. This step was an important one, but it still left room for improvement, judging from a Georgian deputy's comments at the session of the Supreme Soviet in December 1960 that planning work now begins in April or May and continues up to December and that the Gosplan should entrust the republics with the solution of more of the problems of little importance to the all-union economy. 30/ Kosygin also noted that economic administrators still were diverting investment resources from priority projects. The approach to the problem of controlling investment this time was to draw up a list of 250 top priority projects for the Seven Year Plan with the implication that any diversion of resources from them would not be tolerated. Continuing difficulties with material-technical supply arrangements were indicated in Khrushchev's comment at the June plenum that the existing pattern of deliveries between enterprises was much the same as it had been before the 1957 reorganization and that the supply system should be reconstructed to minimize deliveries between far distant enterprises. This defect and the more frequently observed tendency of local authorities to neglect delivery commitments to other administrative areas apparently promoted the introduction on 1 July 1959 of a new statute governing supply procedures. 31/ The provisions of this statute were aimed both at improving the quality of material-technical supply planning and at strengthening the enforcement of supply commitments, primarily through more detailed and more rigidly observed supply contracts drawn in stricter observance of supply plans.

Although the measures taken in 1958 and 1959 were designed to make the system function more smoothly, as perhaps they did, they by no means

solved to everyone's satisfaction all of the acknowledged deficiencies of the new system. The economy had demonstrated its ability to prosper under the territorial arrangement, but remaining imperfections and the new emphasis of the Seven Year Plan on greater economic efficiency seemed to assure further attempts at refinement, even if new problems were not to arise.

## III. Recent Developments (1960 - Mid-1961)

Many of the changes in the organization of industrial planning, coordination, and control during 1958-59 had their origin in the cautious initial strengthening of these functions at the center by a leadership concerned at the outset with problems of localism. This concern, reinforced by the fear of disrupting the flow of supplies to industrial enterprises, prompted a considerable expansion of the duties of the Gosplan in 1957 -- some transferred from the abolished ministries, some newly arisen with the creation of the numerous sovnarkhozes. The subsequent delegation in 1958 and 1959 of some of these duties to republic gosplans, and to the sovnarkhozes themselves, relieved an overburdened central Gosplan but apparently did little to ease the supply planning, coordination, and control problems which remained the subject of much criticism in the Soviet press in the first half of 1960.

A new attack was made on these problems in June and July 1960 in the four multisovnarkhoz republics (RSFSR, Ukrainian SSR, Kazakh SSR, and Uzbek SSR), where the burden of handling intersovnarkhoz relations apparently was overtaxing the abilities of existing republic organizations. The problems were simply removed in the Uzbek SSR, which contained only 5 regional sovnarkhozes, by merging the 5 into a single sovnarkhoz, thereby raising to 12 the number of single-sovnarkhoz republics. In the remaining three republics, which contained a larger number of regional sovnarkhozes (67 in the RSFSR, 14 in the Ukrainian SSR, and 9 in the Kazakh SSR), the problems were approached by the establishment of super-sovnarkhozes at the republic level, under the councils of ministers, to attend to the supply, coordination, and control tasks presented by the regional sovnarkhoz system. In this move, the republic gosplans were freed to return their undivided attention to more traditional, basic republic planning tasks as they had done before the 1957 reorganization.

Another notable change in the organization and planning of industry in 1960 was related less directly to the process of refining the sovnarkhoz system than it was to the long-continuing search for an ideal planning arrangement. The Gosekonomsovet, an organization whose functions were not openly discussed at its creation in March 1959, was designated the official long-term planning agency in April 1960. This development, along with other actions which have stripped the Gosplan

of all its former wide powers except that of short-term planning at the national level and the planning of interrepublic material-technical supply, is reminiscent of similar attempts in earlier periods to improve the planning process by parcelling out its various aspects to specialized agencies, notably the assignment during 1955-57 of short-term planning to a State Commission for Current Planning (Gosekonomkomissiya). Even the recent shifting about of the material-technical supply function, partly a response to problems aggravated by the sovnarkhoz system, is similar to earlier experiments under the former ministerial system which included the shifting of this function in 1948 to a State Committee for Material-Technical Supply (Gossnab), back to the Gosplan in 1953, then to Gosekonomkomissiya in 1955, and back again to the Gosplan in 1957.

The continuing search for better planning arrangements to handle problems antedating the sovnarkhoz system also apparently led to the establishment of coordinating and planning councils which currently are being organized in large natural economic regions. 32/ These councils for coordination and planning of the work of the sovnarkhozes will give new emphasis to an old objective -- integrated development of natural economic regions -- which has been given varying degrees of attention in long-range planning for a number of years. The sovnarkhoz system, however, with its inherent tendency to encourage localist views rather than the broader requirements of the larger natural economic regions, has made the attainment of this objective more difficult, just as localist considerations have complicated problems of material-technical supply. The current plan for establishing regional coordinating councils to handle regional planning problems apparently stems from dissatisfaction with the effectiveness of earlier measures, which included the holding of coordinating conferences of sovnarkhozes within the various natural economic regions and the establishment in 1958 of territorial divisions in the republic gosplans.

The cumulative impact of the changes since the 1957 reorganization, and the further changes which undoubtedly will be made, can not avoid altering the conduct of sovnarkhoz affairs. Realignment of territorial boundaries of some of the original 105 sovnarkhozes has occurred. Some sovnarkhozes have been merged, others divided, although the present system of 101 sovnarkhozes preserves the original pattern of a large number of territorial, economic-administrative units, mostly coinciding with the boundaries of political administrative units, administering nearly three-fourths of the total industrial activity of the country. Although the formal administrative channel through the republic and all-union councils of ministers remains, the sovnarkhozes now are dealing with administrative and planning organs presumably better equipped

to plan, coordinate, and monitor sovnarkhoz development. The administrative organization of Soviet industry and construction is shown in Figure 1.* The individual sovnarkhoz, largely a transmission belt for directives from above, is now responsible for administering programs devised by a larger number of staffs. Such operational decisions as are made by the sovnarkhozes in the implementation of these programs are subject to additional review. Planning agencies, now free to devote more attention to basic planning problems, may be more resistant to sovnarkhoz deviations, may even produce plans less susceptible to improvisation from below.

To the extent that greater coordination of activity in adjacent sovarkhozes leads to more specialized patterns of industrial development, the individual sovnarkhoz will have fewer opportunities for influencing its own course of development. Investment decisions, however, which form the core of long-term development plans, generally have not been a prerogative of the sovnarkhozes in the past. To the extent that the planning and monitoring of intersovnarkhoz supply relationships are improved, default on intersovnarkhoz delivery contracts may be reduced. Sovnarkhozes, therefore, would have fewer excuses for justifying uneconomical development of local resources, less reluctance to shop around in adjacent sovnarkhozes, and less reason for maintaining stockpiles of resources to compensate for erratic flow of supplies.

The regime apparently hopes that these measures will restrict the undesirable exercise of local initiative in the pursuit of local interests without stifling any local initiative that supports the national plan.

A. Republic Sovnarkhozes

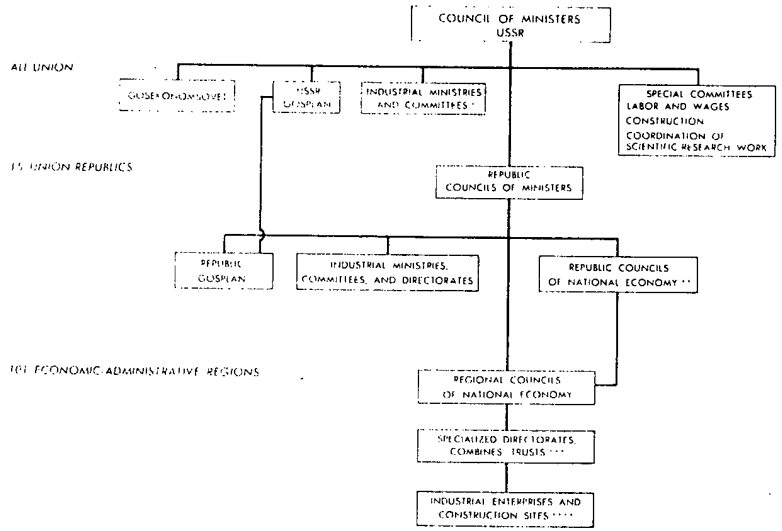
The three republic-level sovnarkhozes, established in 1960 (18 June in the RSFSR, 23 June in the Kazakh SSR, and 6 July in the Ukrainian SSR) are charged by decree of the Presidium of the Supreme Soviet of the USSR with the responsibility of coordinating the economic activities of the regional sovnarkhozes in the republic. 33/ The decree stipulated that the regional sovnarkhozes were to be subordinate in their activities to both the Union-Republic Council of Ministers and the republic sovnarkhoz and that the republic sovnarkhoz was to be directly subordinate in all its activities to the Union-Republic Council of Ministers. Both the republic sovnarkhoz and the regional sovnarkhozes may, within the bounds of their competence, make decisions and issue directives on the basis of and in execution of the decrees and directives of the council of ministers of the USSR and of

* Following p. 12.

Figure 1

# USSR
# ADMINISTRATIVE ORGANIZATION OF INDUSTRY AND CONSTRUCTION
## JULY 1961

### SUBORDINATION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ALL-UNION
GOSEKONOMSOVET
USSR GOSPLAN
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15 UNION-REPUBLICS
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INDUSTRIAL MINISTRIES, COMMITTEES, AND DIRECTORATES
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101 ECONOMIC-ADMINISTRATIVE REGIONS
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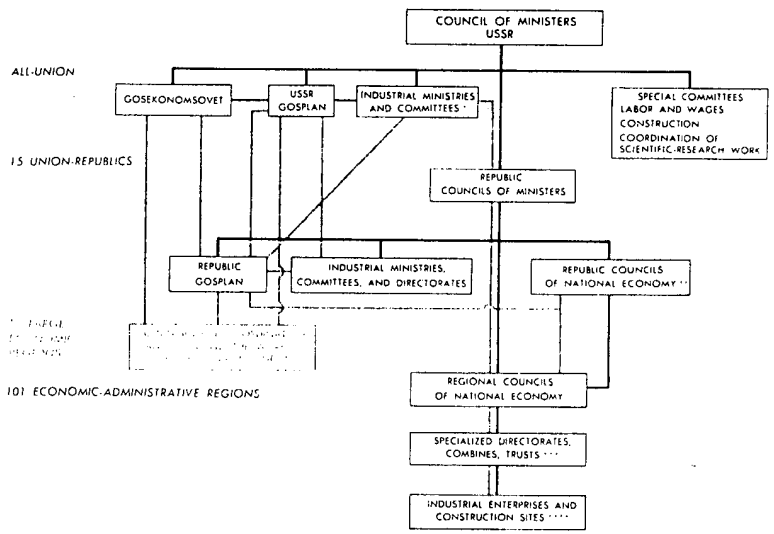
SPECIALIZED DIRECTORATES, COMBINES, TRUSTS ***
INDUSTRIAL ENTERPRISES AND CONSTRUCTION SITES ****

### PLANNING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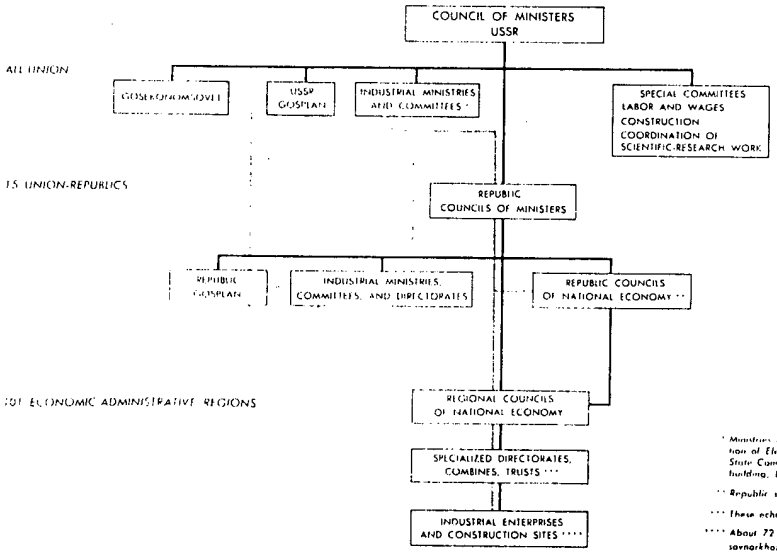
INDUSTRIAL ENTERPRISES AND CONSTRUCTION SITES ****

### CONTROL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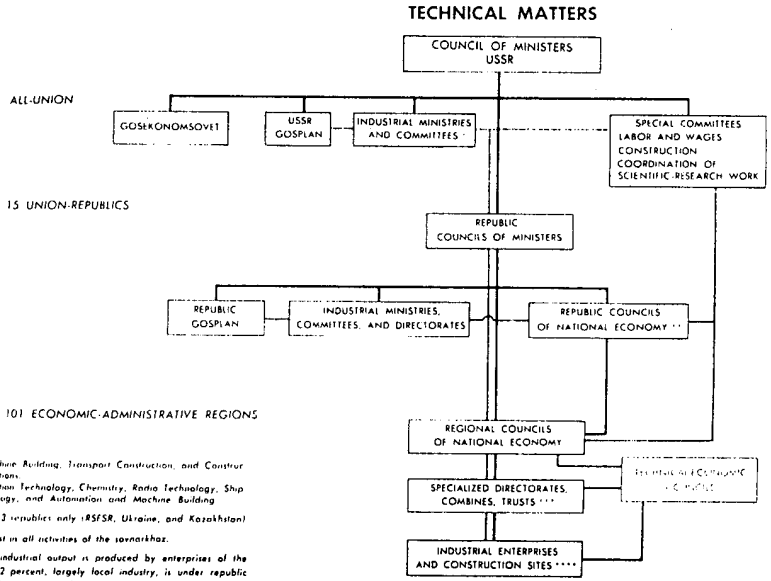
INDUSTRIAL ENTERPRISES AND CONSTRUCTION SITES ****

### TECHNICAL MATTERS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SPECIALIZED DIRECTORATES, COMBINES, TRUSTS ***
INDUSTRIAL ENTERPRISES AND CONSTRUCTION SITES ****

* Ministries of Medium Machine Building, Transport Construction, and Construction of Electric Power Stations.
State Committees on Aviation Technology, Chemistry, Radio Technology, Ship building, Defense Technology, and Automation and Machine Building

** Republic sovnarkhozes in 3 republics only (RSFSR, Ukraine, and Kazakhstan)

*** These echelons do not exist in all activities of the sovnarkhoz.

**** About 72 percent of all industrial output is produced by enterprises of the sovnarkhozes. Another 22 percent, largely local industry, is under republic ministries, committees, or directorates, and oblast or kray executive committees. The remaining 6 percent is under ministries and committees at the all-union level.

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the republic. The republic sovnarkhoz can suspend the decisions and directives of the regional sovnarkhozes, and the republic council of ministers and the USSR council of ministers, as in the past, can suspend or revoke the decisions and directives of all economic councils.

The extent to which the republic sovnarkhozes were to relieve republic gosplans of the time-consuming tasks of monitoring the operations of the numerous regional sovnarkhozes was suggested by the enumeration of the duties of the new bodies. With the establishment of the republic sovnarkhozes in the RSFSR, it was announced that the new organization would coordinate the work of the regional sovnarkhozes and decide operative matters arising in connection with the fulfillment of plans. It was entrusted with supervision over the fulfillment of general economic plans for the RSFSR, with maintaining state discipline in fulfilling delivery contracts, and with ensuring the proper use of materials, monetary funds, and labor. 34/

The pervasiveness of the operation of the new republic sovnarkhozes is revealed by their internal structure, which was announced in October 1960 for the RSFSR. It was to consist of 10 territorial sections (apparently corresponding closely with the natural economic regions defined in recent territorial planning schemes), 17 branch-of-industry main administrations, 13 functional main administrations, and an unspecified number of supply and sales administrations for all industrial branches. 35/

It may have been hoped that the republic sovnarkhozes, endowed with line status, might discharge their assigned duties more effectively than did the republic gosplans which, as staff organizations, formally could act only through the republic councils of ministers. Nevertheless, the preservation of the direct line of command from the republic councils of ministers to the regional sovnarkhozes, alongside the new line of command from the republic sovnarkhozes to the regional sovnarkhozes, has increased the possibilities of operational confusion, or at least occasional uncertainty as to which activities are properly the concern of the new republic sovnarkhozes. Nearly a half year after the creation of the republic sovnarkhozes, the Director of the Institute of Law of the Academy of Sciences, USSR, urged a more specific definition of their duties, forms, and methods of work and a more precise differentiation of their functions and those of the republic councils of ministers. 36/

B. Gosekonomsovet

The Gosekonomsovet was legally made responsible for all long-term planning by a resolution of the Central Committee (CC) of the

CPSU and the Council of Ministers on 7 April 1960. 37/ The Goseknomsovet, with the cooperation of other government organizations, was to elaborate long-range plans for the development of the economy for 20 years as well as plans and material stocks for 5 to 7 years. Long-term planning at the republic level apparently is little affected by this change. Similarly, the participation of the remaining ministries in the planning process apparently has not been greatly affected, except as the necessity of dealing with two planning agencies at the all-union level may complicate the process.

The Gosekonomsovet was chaired by I.I. Kuzmin, formerly Chairman of the Gosplan, from its establishment in March 1959 until April 1960 when it was officially designated the long-term planning agency, but its role in the planning process during its first year is not known. Coincident with the April 1960 resolution, A.F. Zasyadko was shifted from his position as a deputy chairman of the Gosplan to replace Kuzmin as Chairman of the Gosekonomsovet, which has steadily gained in size and activity since that time.

The plenum in July 1960 of the CPSU CC, devoted to problems of accelerating technical progress, assigned the council a number of problems relating to long-term planning. Various research and project-planning organizations were shifted to its jurisdiction, including the Scientific-Economic Research Institute and the Council for the Study of Productive Forces, which formerly were under the Gosplan. A more specialized institute, the Scientific-Research Institute for Planning and Norms, was established in the Gosplan. The Gosplan presumably has retained some "summary" sections, including the one for Aggregative Current National Economic Planning and Republic Problems which, along with its branch-of-economy divisions and its main administrations for interrepublic supply, are adequate for its short-term planning functions.

### C. Councils for Coordinating and Planning the Work of the Sovnarkhozes

One of the most obvious gains from the 1957 reorganization was the breaking up of the ministerial autarky which led to irrationally long hauls between distant plants in the same industrial ministry and an often uneconomical duplication of facilities among the various ministries. These gains have been offset, however, by the equally obvious losses arising from similar autarkical tendencies of the more numerous sovnarkhozes which have interrupted rational as well as irrational hauls and which have encouraged the development of self-sufficiency beyond the economical opportunities for such development in small areas. It is not surprising, therefore, that the regime continues its search for more effective planning and coordination of economic activity in terms of natural economic regions.

The problem of achieving an optimum degree of specialization and cooperation among the sovnarkhozes of natural economic regions was actively discussed at the time of the 1957 industrial reorganization and has been a frequent topic in the Soviet press since that time. In mid-1960 a detailed plan was presented in the official journal of the Gosplan and the Gosekonomsovet for rearranging the 13 basic economic zones formerly employed in regional planning into 16 new economic regions and for establishing economic councils for the planning and coordination of the work of the sovnarkhozes in 14 of these regions. 38/ This plan, apparently conceived about the same time the republic-level sovnarkhozes were created, was prefaced by the statement that the CPSU CC and the Council of Ministers consider it essential to form coordinating and planning councils in the larger economic regions of the country. In presenting the plan it was stressed that the republic sovnarkhozes were a step toward solving operational problems but that other organs were needed to coordinate development of adjacent sovnarkhozes. The new republic sovnarkhozes, oriented toward operational problems of implementing current plans, presumably were not considered ideally suited to handle problems of long-term patterns of industrial development.

The coordinating and planning councils, according to the plan devised by the Council for the Study and Distribution of Productive Forces and the Scientific-Research Economic Institute of Gosekonomsovet, were to work out, for planning organs, proposals and recommendations about the basic, long-term direction of development of the large economic regions. In working out problems such as the development of complementary industries in adjacent sovnarkhozes within each large region and the correct distribution of capital investment to attain the desired patterns of specialization, the councils presumably were to work closely with the long-term planning agency, the Gosekonomsovet.

Although the problem of complex development of large economic regions continued to be discussed, the plan presented in mid-1960 was given little further publicity until May 1961 when it was reported that the plan, slightly modified, was being put into operation. 39/ In the new version, Belorussia and Moldavia remain independent economic administrative regions, and the remainder of the country is divided into 17 large economic regions, as shown in the map, Figure 2.* One of these regions coincides with the boundaries of the Kazakh SSR and is not to have a coordinating council. The coordinating function will be performed by Kazakh Gosplan. Of the remaining 16 large economic regions, each of which is to have a coordinating council, 10 are in the RSFSR and contain from 5 to 12 sovnarkhozes each, 3 are in the Ukrainian SSR and contain from 3 to 6 sovnarkhozes each, and 3 encompass

* Following p. 16.

more than a single republic (the three Baltic SSR's, the three Transcaucasian SSR's, and the four smaller Central Asian SSR's, respectively).

Under the former system of 13 large economic regions, which was used only to a limited extent in planning, the regions were much less uniform in size. The number of sovnarkhozes in each region varied from 3 to 24, and the complaint often was voiced that regional planning usually was nothing more than a summary of the various branch-of-industry plans for each region. The present scheme of coordinating councils reportedly is designed for the purpose of providing republic and central planning organs with independently created plans for the integrated economic development of the several sovnarkhozes within each large region. There is a real need, however, for improving the material-technical supply relationships among adjacent sovnarkhozes -- something not being accomplished adequately by the present arrangement at the republic level. It is conceivable that this problem, which recently has evoked considerable discussion and sharp arguments among Soviet economic administrators, and other similar problems verging on the operational rather than the planning aspect of a controlled economy, may be assigned to the new councils.

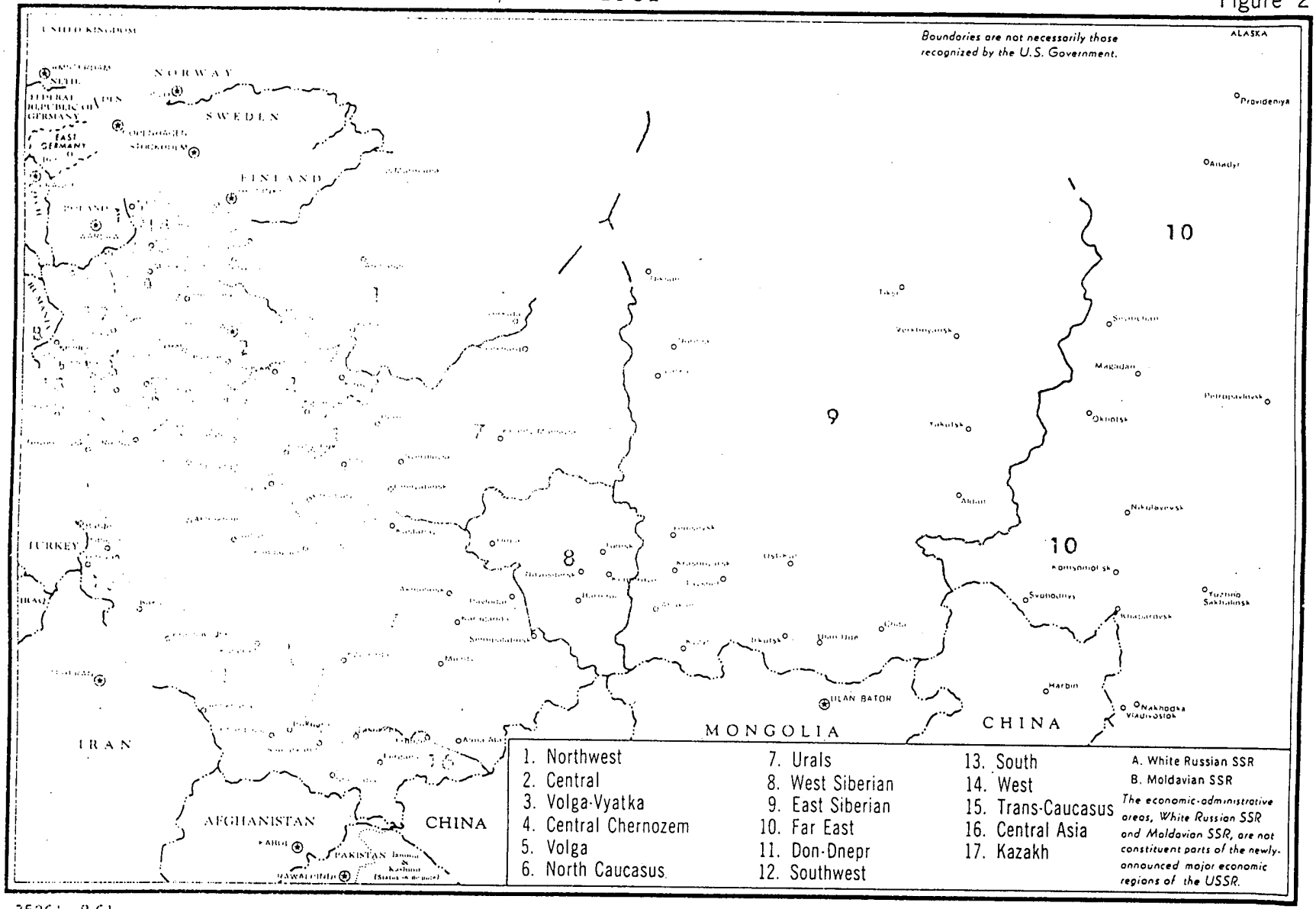
## IV. Proposals for Further Change

Individual Soviet economists and economic administrative officials frequently allude to shortcomings in organization and planning which need to be eliminated, most of the commentators limiting their observations during the last year to shortcomings cited at the CPSU plenum of July 1960. Most of the comments have been concerned with improvements which might facilitate the planning process, although some, such as those dealing with shortcomings in the arrangements for assimilating new techniques, inadequacies in the material-technical supply system, and unnecessary duplication of administrative functions, could involve changes in the formal administrative structure. Some writers speak of the gradual consolidation of some sovnarkhozes and the creation of new ones in the eastern part of the country, but none suggests a major overhaul of the basic territorial system.

A more collective expression of the probable course of developments, at least in the area of planning, was voiced in the recommendations of a conference held 14-18 March 1961 under the auspices of the central long-term planning agency, the Gosekonomsovet. 40/ The major proposals advanced at the meeting were concerned with better indicators of industrial achievement, better planning of integrated industrial development by major economic region, and greater continuity in the planning process. 41/

# USSR: MAJOR ECONOMIC REGIONS, JULY 1961

Figure 2

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SOURCE: EKONOMICHESKAYA GAZETA, No. 125 (978), 28 May 1961

The recommendations made at the conference are not altogether original, but the impressive collection of conferees lends new weight to the proposals and increases their chances of adoption. The proposals do not augur spectacular solutions to the problems considered. Nevertheless, even modest gains in the precision of industrial indicators, and hence in the quality of statistical data available to economic officials, could hasten the introduction of advanced, mathematical techniques in planning and could provide better control over the distribution of incentive awards to workers and managers on the basis of actual achievements. Furthermore, any improvement in the continuity of plans or in the integration of industrial activity in regional planning might free enterprise managers of some of the material and equipment supply problems which have diverted attention from other managerial duties since the 1957 industrial reorganization.

The recommendations of the conference dealt with problems which have been under discussion for several years and which have proved resistant to easy solution. The use of physical units in planning and reporting industrial activity has been an indispensable tool of central economic guidance, but no way has been found to compensate fully for its tendency to discourage economy in the use of materials and discourage also the introduction of more effective types of products. The value indicators used to measure the volume of industrial output of enterprises have not provided planners a fully satisfactory measure of the actual volume of work performed in the different branches of industry. The planning of integrated industrial development of major economic regions has been frustrated continually by an economic administrative structure which either has cut across the lines of economic regions, as in the case of the former ministries organized along branch-of-industry lines, or has broken the economic regions into small units, as in the case of the present 101 sovnarkhozes organized along political administrative lines. Practical limitations on the time span for which detailed operational plans can be drawn up have hampered attempts to obtain greater precision in long-range planning, and the discontinuous nature of plans has sometimes been hard to reconcile with the aim of uninterrupted production.

The plenum of the CPSU CC in July 1960 ordered the Gosekonomsovet, with the help of other planning, scientific, and economic administrative organizations, to work out proposals for improving plan indicators and regional planning by 1 March 1961 for submission to the Council of Ministers. Hope was expressed at the plenum that better indicators of production achievements would make for more effective use of investment and operating funds, closer adherence to plans for variety and quality of product, and closer attention to costs of production and that improved regional planning would encourage a more rational development of industrial specialization and cooperation. 42/

The need for greater continuity in planning was set forth in detail by Khrushchev at a May 1957 session of the Supreme Soviet. Although this problem was not specifically included in the assignments of the plenum of July 1960, one step toward its solution -- a continuously operating 5-year plan -- was recognized as necessary by the Council of Ministers at a meeting on 24 December 1960, and the problem was included in the agenda of the planning conference in March 1961. Greater continuity in planning, according to Khrushchev, would prevent interruptions of work schedules in the transition from one plan period to another, make better provision for activities extending over several plan periods, and ensure that new plans incorporate both the developments and commitments of preceding plan periods and the anticipated requirements of future periods. 43/

The conference recommended that the use of physical indicators of the volume of production be improved by a more selective application of indicators to specific products. 44/ Thus, indicators of the productivity of machines and equipment produced by the machine building industry would be used in preference to weight indicators alone, and the percentage of new items in the total volume of production would be reported. These proposals, if adopted, would shift emphasis from a weight criterion, wasteful of resources, to one that would encourage new products, an essential element of the current program for raising the level of technology in industry. Other instances, equally obvious, were cited where a more appropriate section of indicators would correct some of the shortcomings of existing practice. The lack of originality in these proposals makes them no less promising in an area where performance criteria always have been strikingly inadequate.

The conference directed major attention to the problem of improving the use of value indicators of the volume of production. It was recommended that the statistic "gross production" (valovaya produktsiya) should be retained only in annual reports, and a single statistic -- a newly defined form of a previously used measure of "commercial production" (torvarnaya produktsiya) -- was recommended for general use throughout industry. It was recommended further that a system of special indicators, to measure more accurately the volume of work performed under differing circumstances in the various branches of industry, be established after considering the results of tests conducted in 1960 at some 500 enterprises.

Other recommendations, if adopted, would work toward greater economic efficiency. To keep watch over the use of fixed capital equipment, the use of capital-output ratios was proposed, and to encourage proper care of machinery, it was proposed that any unamortized value of replaced items be charged to enterprise costs and that excess amortization be deposited to funds for modernization of equipment. Another proposal

would provide greater material rewards for fulfilling high plan obligations than for overfulfilling lesser ones. Designed to help reduce the tendency of lower echelons to strive for minimum assignments, this device is already in use in Poland.

Some of the arrangements discussed at the conference for providing continuity in the planning process actually have been in operation for several years. The division of the long-range plan into annual segments, with each segment hopefully requiring only a few revisions to incorporate new needs and capabilities, was introduced in 1959 as a feature of the Seven Year Plan, and the timing of the planning process was shifted several years ago to provide enterprises with approved plans at the start of the plan period rather than some months later, as frequently happened in the past.

Apparently the task of transforming annual segments of the long-range plan into fully operational annual plans has proved to be a greater chore than envisioned earlier, or perhaps the unrevised segments for forthcoming years have not provided enough guidance to give the desired continuity in annual plans. In any event, the recommendation of the conference that adjustments be made at all planning levels two years ahead for the whole range of plan indexes will force planners to look a little farther ahead in elaborating the plan for the coming year. Similarly, the working out each year of the major indexes for production and capital construction for the year lying 5 years ahead will force the planners to look beyond the current long-term planning period. This practice, combined with the commencement of work on the next long-term plan midway through the current one, should prevent some of the discontinuities which have disturbed Soviet leaders, but whether or not it will greatly improve the quality of the plans is debatable. The conferees, apparently with some reservations on this point themselves, stressed the importance of increasing the size of reserves of material resources and capital investments, so that unforeseen requirements might be met without disrupting plans.

The conference recommendations for improving regional planning centered upon greater use of planning balances, not only in the union republics but in all economic regions of the country. The conference stressed the necessity of working out an easy method of constructing regional tables of interindustry balances and a system of indexes which would reflect the levels of productive specialization and development of each region. Toward this end, it was proposed that the Central Statistical Administration improve its collection of statistical materials so that the number of summary balances of major categories of production in oblasts and republics could be raised from 17 to 70 or 80. The conference also pointed out the necessity of strengthening the role

of regional planning commissions and recommended that kray and oblast committees and councils of ministers of autonomous republics be permitted to work out summary plans for the development of locally subordinated production. Clearly the price of improving both regional planning and continuity of plans, along the lines suggested at the conference, would be a considerable expansion in the work of planning organizations.

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